NOV 26 1960

Major General Robert J. Friedman
Director of Budget
Office of the Comptroller of the Air Force
Washington 25, D. C.

Dear Bob

During your visit here on 11 November, the method of funding Discoverer, Samos, and Midas efforts at Lockheed Missile and Space Division was discussed. The following information is submitted in response to your questions.

Mr. Brown's complaint that funds were supplied Lockheed in such small increments that they were continually operating in a state of crisis was true until approval of the Discoverer, Samos, and Midas development plans in February 1960. Since that time, the funding situation has progressively improved toward funding on a quarterly basis.

As you know, prior to December 1959, the Discoverer, Samos, and Midas programs were under the direction of ARPA. During this period, considerable indecision existed as to the scope and direction of these programs. As a result, money was released by ARPA to the Air Force in small increments and this, in turn, caused the unhealthy situation at Lockheed. From December 1959, when the Department of Defense transferred these programs from ARPA to the Air Force, until approval of the R&D development plans in February, conditions remained unsettled and the funding situation did also. In addition to the piecemeal funding during the ARPA and early Air Force phases and program uncertainties, the change from a single contract for all three programs to individual contracts made contract definitization a most difficult task. This resulted in Lockheed operating under a letter contract until May 1960, with the associated restrictions on the amount of money which could be placed on such a contract.

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A review of the records since the beginning of Fiscal Year 1961 discloses that these conditions have been largely corrected. The month-to-month status has been as follows:

	Jun	Jul	Aug	Sep	Oct
Air Force Obligations	[redacted]				
Contractor Commitments					

You will note that at all times the amount on contracts has been in excess of the Contractor's Commitments (current liabilities). Although we have been allotting money to contracts in increments of [redacted] each month, there have been valid reasons for such practices. The rapidly changing programs together with Lockheed's consistent tendency to underestimate costs have dictated that we apply our funds with caution.

The subject of "spoon feeding" as it related to time phased procurement is an interesting one and warrants some additional discussion. Funds are allotted to contracts by Change Orders which are unilateral documents and place no additional work upon the contractor. Thus, as long as the dollars allotted to contracts are sufficient to cover the contractor's commitments (current liabilities), the frequency of individual Change Orders is, in effect, of little concern to the contractor and certainly does not impose any hardship upon him. As indicated above, the funds allotted to Lockheed's contracts have been sufficient to cover his commitments. The only possible deduction to be made from Lockheed's complaint is that it is unwarranted, at least since the beginning of FY 61. At the present time, Lockheed is funded through December 1960 and action is being taken to insure their coverage for the third quarter of FY 61.

Your interest in this subject is appreciated, and it is hoped that this letter will answer your questions in regard to Mr. Brown's complaint. If further information or detail is desired, please let me know.

Sincerely

SIGNED

O. J. RITLAND
Major General, USAF
Commander